

 Indiana State
Teachers' Retirement Fund



2001 Annual Report



Indiana State Teachers' Retirement Fund

FRANK O'BANNON, Governor
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April 15, 2002

The Honorable Governor Frank O'Bannon
Governor of Indiana
Capitol Building
Indianapolis, Indiana 46204

Dear Governor O'Bannon,

We are pleased to present the 2001 Indiana State Teachers' Retirement Fund Annual Report. What follows is a synopsis of the 2001 and 2000 fiscal years highlighting the essential changes in the Fund.

	30-Jun-01	30-Jun-00	Increase (Decrease)
Number of Active Members	75,648	77,870	(2222)
Number of Vested Inactive Members	4,595	4,331	264
Number of Retirees and Beneficiaries	33,783	32,878	905
Annual Payout to Retirees and Beneficiaries	\$580.2 Million	\$529.7 Million	\$50.5 Million
Net Assets Held in Trust for Pension Benefits	\$5,810.8 Million	\$5,577.6 Million	\$233.2 Million
Rate of Invested Earnings Distribution			
<i>Guaranteed Fund</i>	7.75%	7.75%	
<i>Bond Fund</i>	11.08%	5.99%	
<i>S & P 500</i>	(14.71)%	7.21%	
<i>Small Cap</i>	7.58%	38.65%	
<i>International</i>	(24.13)%	26.27%	
Unfunded Accrual Date Liability			
CLOSED PLAN			
<i>Retired Lives</i>	\$1,426.8 Million	\$1,380.4 Million	\$ 46.4 Million
<i>Active and Inactive Members</i>	\$5,905.5 Million	\$5,819.0 Million	\$ 86.5 Million
NEW PLAN			
<i>Retired Lives</i>	\$ (1.0)		
<i>Active and Inactive Members</i>	\$ 381.8 Million	\$ 337.6 Million	\$ 44.2 Million
TOTAL	\$7,713.1 Million	\$7,537.0 Million	\$ 176.1 Million

Please note that Member annuity reserve accounts are fully funded and available to the member at time of withdrawal, retirement, or to the designated beneficiary in the event of members' death. Under the CLOSED PLAN, State of Indiana pays the employer share as it comes due during the members' retirement.

Our detailed report includes Financial Statements, with the auditor's report from the State Board of Accounts; Statistical Tables; Actuarial Report and Investment Summary.

The financial security of the Indiana State Teachers' Retirement Fund is very important as over 114,000 members count on us to manage one of their largest assets. The Board of Trustees and the Staff take this responsibility seriously. Our goals continue to be to ensure the long-term stability of the Fund and provide the highest level of service.

Respectfully submitted,

Matthew B. Murphy, III, President
Louise W. Elliott, Vice President
Garrett L. Harbron, Secretary
James M. Bennett, Trustee
Douglas M. Kinser, Trustee

William E. Christopher, Executive Director

Mission Statement

The mission of the Indiana State Teachers' Retirement Fund is to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the State.

Core Values

The Indiana State Teachers' Retirement Fund, as an organization, holds the following core values in all of its working relationships:

- ◆ professionalism, respect, and compassion in dealing with others;
- ◆ diversity, both of ideas and people;
- ◆ open communication, collaboration, and cooperation;
- ◆ integrity and the avoidance of conflicts of interest;
- ◆ courtesy and timeliness;
- ◆ accountability;
- ◆ innovation and flexibility; and
- ◆ commitment to and focus on our mission

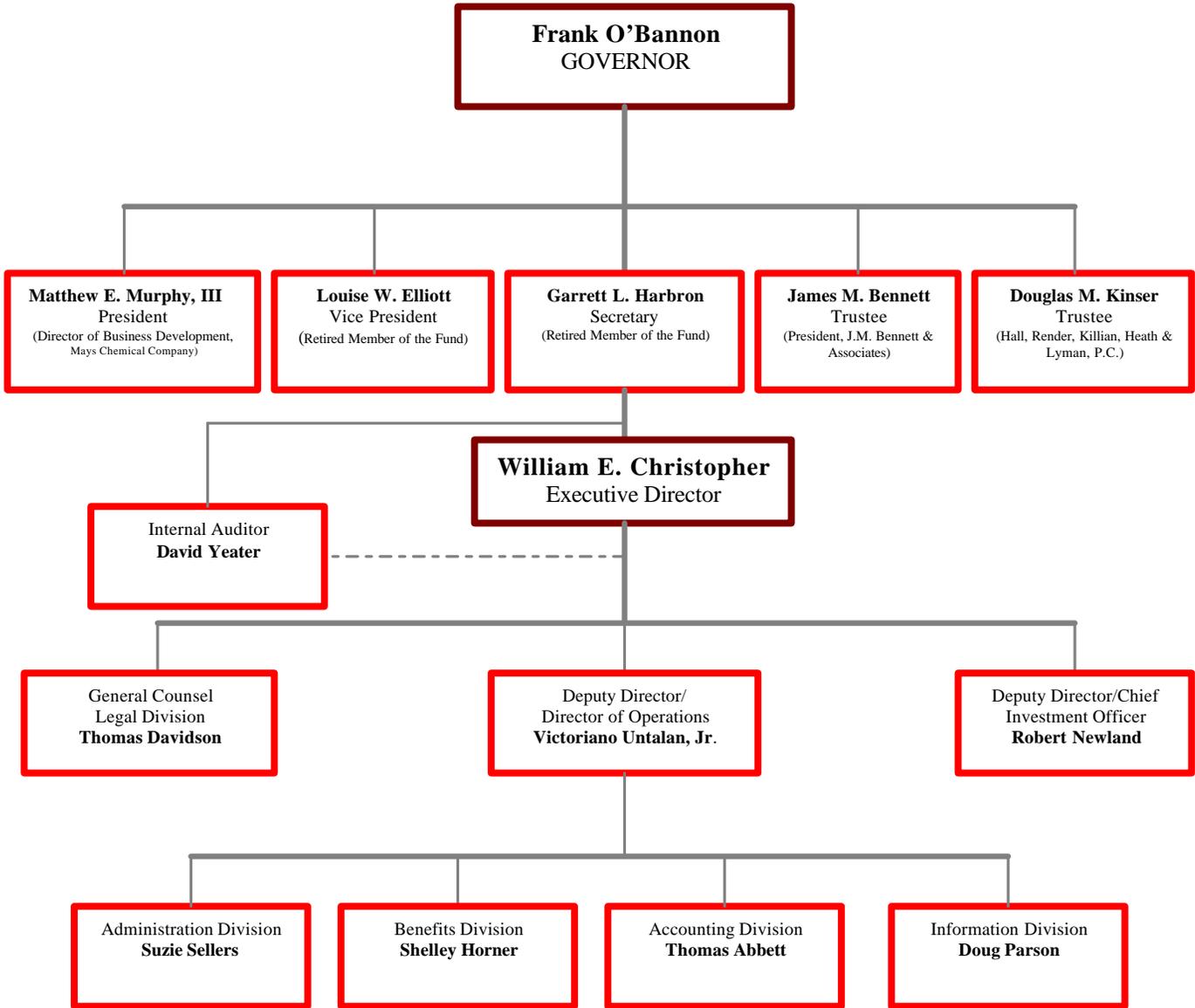


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Financial Statements



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF THE INDIANA STATE TEACHERS' RETIREMENT FUND

We have audited the accompanying statement of plan net assets of the Indiana State Teachers' Retirement Fund as of June 30, 2001, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Indiana State Teachers' Retirement Fund are intended to present the financial position and results of operations of only the portion of the funds of the State that are attributable to the transactions of the fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana State Teachers' Retirement Fund as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are required disclosure for the Teachers' Retirement Fund. This information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Supplemental schedules and related financial information, as prescribed by the Fund's management, are included for purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 31, 2001

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF PLAN NET ASSETS
June 30, 2001

Assets

Cash and Cash Equivalents	\$ 331,333,426
Securities Lending Collateral	<u>586,198,579</u>
Receivables	
Employer Contributions Receivable	22,687,377
Due From PERF	5,557,512
Member Contributions Receivable	29,243,020
Receivable From State Lottery	7,500,000
Receivables for Securities Sold	90,162,532
Investments Interest Receivable	<u>46,266,482</u>
Total Receivables	<u>201,416,923</u>
Investments	
Bonds	3,204,879,990
Equity Investments	2,297,345,618
Real Estate	<u>260,000</u>
Total Investments	<u>5,502,485,608</u>
Furniture and Equipment (Original Cost of \$377,276 Net of \$354,556 Accumulated Depreciation)	<u>13,159</u>
Insurance Premium Paid in Advance	<u>36</u>
Total Assets	<u>6,621,447,731</u>

Liabilities

Accrued Benefits Payable	7,917,732
Accrued Salaries Payable (See Note 1)	104,484
Accrued Liability for Compensated Absences - Current	4,645
Accrued Liability for Compensated Absences - Long-Term	179,865
Accounts Payable	3,009,843
Due To PERF	5,404,625
Securities Lending Collateral	586,198,579
Payables for Securities Purchased	<u>207,868,394</u>
Total Current Liabilities	<u>810,688,167</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 5,810,759,564</u>

(A schedule of funding progress is presented on Page 22)

The accompanying notes are an integral part of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2001

Additions	
Contributions	
Member Contributions	\$ 104,522,696
Employer Contributions	537,892,050
Employer Contributions - Pension Stabilization	<u>155,000,000</u>
Total Contributions	<u>797,414,746</u>
Investments	
Net Appreciation (Depreciation) in Fair Value	(219,426,522)
Interest Income	215,475,723
Dividend Income	38,876,964
Securities Lending Income	24,936,558
Less Investment Expense	
Investment Fees	(10,123,214)
Securities Lending Fees	<u>(24,006,716)</u>
Net Investment Income	<u>25,732,793</u>
Other Additions	
Transfers From Other Retirement Funds	2,378,801
Annuity and Disability Refunds	5,286,742
Outdated Benefit Checks	121,557
Reimbursement of Administrative Expense	<u>25,171</u>
Total Other Additions	<u>7,812,271</u>
Total Additions	<u>830,959,810</u>
Deductions	
Annuity and Disability Benefits	580,170,330
Voluntary and Death Withdrawals	8,753,977
Refunds - Members/School Units	0
Claims on Outdated Benefit Checks	0
Administrative Expenses	4,766,215
Capital Projects	2,028,556
Depreciation Expenses	9,561
Transfers to Other Retirement Funds	<u>2,056,739</u>
Total Deductions	<u>597,785,378</u>
Net Increase (Decrease)	233,174,432
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	<u>5,577,585,132</u>
End of Year	<u>\$ 5,810,759,564</u>

The accompanying notes are an integral part of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Note 1. Summary of Significant Accounting Policies

- A. Reporting Entity - The financial statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund (TRF) has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Effective July 1, 2000, TRF became an independent corporate and politic (Public Law 119-2000). TRF is not a department or agency of the State but is an independent body corporate and politic exercising essential government functions. Although TRF is not a state agency, it is a component unit of the State of Indiana for financial statement reporting purposes.
- B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles.
- C. Fund Accounting - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this fund, see Note 2.
- D. Basis of Accounting - The records of this Fund are maintained on a cash basis. The accrual basis is used for reporting purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the balance sheet.

- E. Budgets - A budget for the administrative expenses is prepared and approved by the Board of Trustees.
- F. Deposits and Investments - The Treasurer of State acts as the official custodian of the cash and securities, except for securities held by banks or trust companies under custodial agreements with the Board of Trustees. The Board of Trustees may contract with investment counsel, trust companies, or banks to assist the Board in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. The Board has issued investment guidelines for its investment program which authorized investments of: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.
- G. Method Used to Value Investments - GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

- H. Equipment - Equipment with a cost of \$5,000 or more is capitalized at the original cost. Depreciation is computed on the straight-line method over the estimated five year life of all assets.
- I. Contributions Receivable - The contributions receivable was determined by using actual contributions received in July for days paid in the quarter ended June 30, 2001.
- J. Inventories - Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.
- K. Reserves and Designations

The following are the legally required reserves and other designations of fund equity:

1. Member Reserve: The member's reserve represents member contributions made by or on the behalf of the employees plus any interest distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement disability, or other benefit. For Indiana State Teachers' Retirement Fund this reserve is the employees' annuity savings account.
2. Benefits in Force: This reserve represents the actuarially present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve contains \$1,833,040,979 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by IC 21-6.1-2-8.
3. Employer Reserves: This reserve consists of the accumulated employer contributions plus earnings distributions less transfers made to the Benefits in Force reserve of the actuarial pension cost.
4. Undistributed Investment Income Reserve: This reserve was credited with all investment earnings. Interest transfers have been made annually to the other reserves as allowed or required by statutes. The transfers are at rates established by the Board of Trustees.

The following are the balances of the reserves and designations of fund equity:

<u>Member Reserve</u>	<u>Employer Reserve</u>	<u>Benefits In Force</u>	<u>Undistributed Income</u>
<u>\$ 2,654,185.073</u>	<u>\$ 223,259,318</u>	<u>\$ 2,707,640,003</u>	<u>\$ 225,675,170</u>

- L. Payables and Liabilities - Payables and liabilities are not maintained throughout the year on the accounting records. They are calculated or estimated for financial statement reporting purposes and are posted to the general ledger at year end.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

M. Compensated Absences - Full-time employees of the Indiana State Teachers' Retirement Fund are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and as Accrued Compensated Absences Payable.

Note 2. Fund Description

The Indiana State Teachers' Retirement Fund is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state. At June 30, 2001, the number of participating school unit employers was:

Public School Units	317
Higher Education Units	4
State of Indiana Agencies	29
Associations	<u>3</u>
Total Employers	<u>353</u>

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University. Additionally, faculty members at Ball State University, Indiana State University, and University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. As of July 1, 2000, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	32,878
Active Plan Members	77,870
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	<u>4,331</u>
Total	<u>115,079</u>

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs at age fifty with fifteen or more years of service or at age sixty-five with ten years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Regular Retirement (No Reduction Factor For Age)

Eligibility - Age sixty-five with ten years service or age fifty-five with age plus years of service equaling at least eighty-five or age sixty with at least fifteen years of service.

Mandatory Retirement Age - none.

Annual Amount - State pension equal to total years of service times 1.1% of final average salary; plus an annuity purchased by the member's accumulated contributions unless the member elects to withdraw the accumulated contributions in a lump sum.

Type of Final Average Salary - Average of highest five years.

Early Retirement (Age Reduction Factor Used)

Eligibility - Age fifty with fifteen or more years service.

Annual Amount - State pension is computed as regular retirement benefit but reduced one-tenth of 1% for each month age at retirement is between sixty and sixty-five and five-twelfths of 1% for each month under age sixty.

Deferred Retirement (Vested Benefit)

Eligibility - Ten years of service. Benefit commences at age sixty-five, or at age fifty if member has fifteen or more years of service.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Regular Disability

Eligibility - Five years of service.

Annual Amount - \$125 per month plus \$5 for each year of service credit over five years.

Disability Retirement (No Reduction Factor For Age)

Eligibility - Five years of service and also qualify for Social Security Disability at time of termination.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Duty Death Before Retirement

Eligibility - Fifteen years of service. Spouse to whom member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Benefit Increases After Retirement: No automatic increases after retirement are provided. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of his/her compensation. Effective July 1, 1986, each employing unit may elect to "pick up" the employee contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The "pick up" amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest. In the event of a death of a member who has served less than fifteen years or does not meet the surviving spouse requirements, their designated beneficiary or estate is entitled to a lump sum settlement of their contributions plus interest.

Indiana pension statutes stipulates that each member of the Fund shall have the opportunity to direct their annuity savings account into one of five current investment programs:

1. The Guaranteed Fund - Interest is credited at a rate annually determined by the Board of Trustees. Principal and interest are "guaranteed." Market risk is assumed by the Fund.
2. The Bond Fund - Contains high quality fixed-income instruments which provide interest/capital gain income. Market risk is assumed by the member.
3. S & P 500 Index Fund - Closely tracks the return on the S & P 500 Index by employing an indexing strategy that invest in the stocks of the S & P 500 Index companies. Market risk is assumed by the member.
4. Small Cap Equity Fund - Consist of stocks with a market capitalization of less than \$1.5 billion. Market risk is assumed by the member.
5. International Equity Fund - Consists of securities of developed non-U.S. countries. Market risk is assumed by the member.

The Guaranteed Fund, Bond Fund, S & P 500 Index Fund, Small Cap Fund and International Fund are valued at market value. When a member retires, dies or suspends membership and withdraws from the fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment less accrued investment expenses.

Members may only make a selection or re-allocation once during any twelve month period. The changes will be in effect the first month of the quarter following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Employer Contributions Required and Employer Contributions Made

The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995. State appropriations are made for the amount of estimated pension benefit payout for each fiscal year. For employees hired on or after July 1, 1995, the individual employer will make annual contributions. These contributions are actuarially determined.

Based on the actuarial valuation at June 30, 2000, employer actuarially required contributions were \$537,789,669 normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the year ended June 30, 2001, totaled \$692,892,050 which was 25.2% of covered payroll.

Note 4. Cash, Investments and Securities Lending

Investments made by the Indiana State Teachers' Fund, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 includes investments that are insured or registered or for which securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or its agency in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

State statutes and Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. No more than 40% of Teachers' Retirement Fund's total assets may be lent at any one time. At year-end, Teachers' Retirement Fund has no credit risk exposure to borrowers because the amount Teachers' Retirement Fund owes the borrowers exceed the amounts the borrowers owe Teachers' Retirement Fund.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Cash collateral is generally invested in securities of a longer term, generally with maturities up to one year, and the weighted-average term to maturity of all collateral investments was thirty days.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

PERF's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the State's employee group as a whole has tended to remain level as a percentage of annual covered payroll. PERF uses the entry age normal cost method to determine the contribution requirements and the actuarial accrued liability. The State's annual contribution to PERF consists of the amortization of the unfunded actuarial accrued liability (expressed as a level dollar amount), plus the entry age normal cost (expressed as a percentage of total payroll).

The amortization of the unfunded actuarial accrued liability is the level dollar payment necessary to amortize the unfunded actuarial accrued liability. The initial 1975 liability is being amortized over forty years from the date of change, with the exception that changes in liabilities due to cost of living adjustments are being amortized over fifteen years. The entry age normal cost is determined on an individual basis and then increased proportionally to account for PERF operational expenses. TRF, on the other hand, is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995, with the state appropriating only the amount necessary to fund the benefits due in a particular year. For employees hired on or after July 1, 1995, the employer makes annual contributions. The General Assembly is required to appropriate an amount sufficient to cover the state's actuarial liability for each member covered by the pre-1996 account and for each state employee covered by the 1996 account.

Note 6. Deferred Compensation Plan

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides \$15 per pay period for each employee who contributes to the 457 Plan.

The state has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

Note 7. Contingent Liabilities

The Indiana State Teachers' Retirement Fund is defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the resolution of these matters will not have a material or adverse effect on the financial condition of the Fund. Tort claims are paid from the General Fund of the State of Indiana through the Attorney General's Office and are not paid by the Fund.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 8. Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The policy of the Fund is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

INDIANA STATE TEACHERS' RETIREMENT FUND
 REQUIRED SUPPLEMENTAL SCHEDULES
 June 30, 2001

SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (ALL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-94	\$ 2,809	\$ 9,088	\$ 6,279	30.91%	\$ 2,615	240.11%
6-30-95	2,984	9,675	6,691	30.84%	2,729	245.18%
6-30-96	3,263	10,331	7,068	31.58%	2,879	245.50%
6-30-97	3,750	11,044	7,294	33.96%	2,985	244.36%
6-30-98	4,266	11,779	7,513	36.22%	3,095	242.75%
6-30-99	4,971	12,671	7,700	39.23%	3,294	233.76%
6-30-00	5,578	13,115	7,537	42.53%	3,193	236.05%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS
 AND OTHER CONTRIBUTING ENTITIES

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1994	\$ 456,846,570	63%
1995	481,927,124	65%
1996	508,940,065	106%
1997	508,259,679	92%
1998	524,815,537	117%
1999	547,532,673	118%
2000	537,789,669	128%

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	June 30, 2000
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	39 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	5.50% to 10.60%
Post Retirement Benefit Increases	5.50%
Cost of Living Increases	Unscheduled Increases Periodically

Statistical Tables

SCHEDULE OF ADMINISTRATIVE EXPENSES

	2001	2000	1999	1998
Personal Services:				
Trustees Per Diem	\$11,200	\$8,624	\$6,270	\$6,540
Staff Salaries	1,296,418.15	1,210,178	1,072,924	848,851
Social Security	86,061.58	73,368	72,169	64,823
Retirement	103,681.94	90,173	87,625	78,498
Insurance	200,618.02	161,332	144,976	137,240
Personnel Reclassification/Additional Staffing	50,519.04	0	0	0
Temporary Services	<u>47,822.37</u>	<u>82,304</u>	<u>117,596</u>	<u>49,550</u>
Total Personal Services	<u>\$1,796,321.11</u>	<u>\$1,625,979</u>	<u>\$1,501,560</u>	<u>\$1,185,502</u>
Professional & Technical Services:				
Actuarial	\$53,965.00	\$85,790	\$105,680	\$63,080
Data Processing	723,793.30	872,953	518,050	444,038
Y2K Services	1,001,700.00	0	0	0
Data Processing Consultant	0	0	862	0
Audit	27,200.00	28,127	23,827	19,823
Strategic Planning Consulting	8,177.00	0	0	0
Benchmarking	25,000.00	0	0	0
Compensation Classification Consulting	7,500.00			
Revised Internal Operations				
Procedures Manual Development	0	0	0	0
Legal Services	115,630.29	65,289	87,602	83,596
Medical Examinations	420.00	220	340	700
Pension Death Record Comparison	<u>7,657.00</u>	<u>5,044</u>	<u>5,125</u>	<u>5,097</u>
Total Prof. & Tech. Services	<u>\$1,971,042.59</u>	<u>\$1,057,422</u>	<u>\$741,486</u>	<u>\$616,334</u>
Communication:				
Printing	\$242,719.05	\$6,510	\$32,938	\$31,863
Telephone	69,936.50	81,386	35,613	30,417
Postage	346,421.40	572,653	587,979	286,544
Travel	<u>29,245.34</u>	<u>26,491</u>	<u>12,180</u>	<u>13,159</u>
Total Communication	<u>\$688,322.29</u>	<u>\$687,040</u>	<u>\$668,710</u>	<u>\$361,983</u>
Miscellaneous:				
Administrative Legal Services	5,115.43	2,723	4,178	4,347
Equipment Leasing	19,609.44	19,296	18,760	18,224
Unemployment	0	4,105	768	9,732
Membership and Training	35,208.72	31,562	14,842	22,574
Supplies	41,535.57	34,786	31,625	27,055
Maintenance	2,600.99	6,999	7,547	5,345
Bonding	1,736.00	1,491	1,736	1,292
Depreciation	9,561.00	65,156	30,738	33,737
Office Rent	179,551.82	155,745	156,445	149,274
Advertising	0	0	0	0
Total Miscellaneous	<u>\$285,357.97</u>	<u>\$321,863</u>	<u>\$266,639</u>	<u>\$271,580</u>
Total Administrative Expenses	<u>\$4,741,043.96</u>	<u>\$3,692,305</u>	<u>\$3,178,395</u>	<u>\$2,435,399</u>
 CAPITAL PROJECTS				
	2001	2000	1999	1998
New Retirement Information System:				
System Design and Development	\$1,594,407.22	\$1,218,690	\$0	\$0
Project Manager	138,964.00	302,800	73,809	93,897
Project Quality Assurance	133,692.00	331,263	53,619	16,109
Office Renovations	<u>161,492.75</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,028,555.97</u>	<u>\$1,852,752</u>	<u>\$127,428</u>	<u>\$110,006</u>

1997	1996	1995	1994	1993	1992
\$2,600	\$2,700	\$2,700	\$2,100	\$2,050	\$2,150
787,963	732,141	745,068	735,340	618,709	623,665
60,271	55,926	56,780	50,430	46,844	47,313
76,276	66,113	67,043	99,449	54,270	56,610
130,363	121,104	107,820	62,711	79,144	70,575
0	0	0	0	0	0
<u>55,002</u>	<u>35,147</u>	<u>18,423</u>	<u>8,024</u>	<u>0</u>	<u>0</u>
<u>1,112,475</u>	<u>\$1,013,131</u>	<u>\$997,834</u>	<u>\$958,054</u>	<u>\$801,017</u>	<u>\$800,313</u>
\$58,260	\$46,825	\$75,660	\$49,360	\$61,950	\$39,580
371,825	447,913	381,491	784,628	774,950	659,349
0	0	0	0	0	0
41,672	74,913	0	0	0	0
16,016	16,383	25,898	12,456	16,155	9,161
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	2,235
40,546	40,729	69,288	12,797	77,680	41,572
636	480	940	640	700	1,300
<u>5,056</u>	<u>5,019</u>	<u>5,100</u>	<u>5,611</u>	<u>6,106</u>	<u>6,698</u>
<u>534,011</u>	<u>\$632,262</u>	<u>\$558,377</u>	<u>\$865,492</u>	<u>\$937,541</u>	<u>\$759,895</u>
\$31,763	\$60,770	\$106,479	\$113,318	\$103,569	\$92,091
26,482	23,856	27,139	20,046	23,198	19,534
378,269	317,912	239,550	208,015	237,315	217,831
<u>6,576</u>	<u>7,241</u>	<u>7,778</u>	<u>8,196</u>	<u>7,132</u>	<u>8,383</u>
<u>\$443,090</u>	<u>\$409,779</u>	<u>\$380,946</u>	<u>\$349,575</u>	<u>\$371,214</u>	<u>\$337,839</u>
2,125	1,607	1,230	1,590	2,672	0
2,164	6,303	3,731	1,427	0	2,821
0	0	2,707	0	0	2,608
10,992	8,421	7,316	6,297	10,327	3,657
35,122	24,613	25,153	19,614	16,268	11,269
13,220	7,922	4,884	5,169	6,033	19,122
1,288	1,919	1,055	1,055	1,109	1,446
40,287	38,091	49,765	61,023	73,211	67,801
152,175	151,811	136,881	111,372	111,568	112,071
0	0	0	0	289	64
<u>257,373</u>	<u>\$240,687</u>	<u>\$232,722</u>	<u>\$207,547</u>	<u>\$221,477</u>	<u>\$220,859</u>
<u>\$2,346,949</u>	<u>\$2,295,859</u>	<u>\$2,169,879</u>	<u>\$2,380,668</u>	<u>\$2,331,249</u>	<u>\$2,118,906</u>

SCHEDULE OF INVESTMENT EXPENSES

	2001	2000	1999	1998
Custodial				
National City Corporation	\$1,064,653.60	\$2,035,330	\$187,281	\$200,563
NBD, N.A.	0	0	0	0
<i>Total Custodial</i>	<u>1,064,653.60</u>	<u>2,035,330</u>	<u>187,281</u>	<u>200,563</u>
Management				
Fixed Income Managers				
<i>Alliance Capital Mgmt.</i>	514,949.97	385,852	493,196	394,335
<i>Alpha Capital Mgmt.</i>	0	0	0	0
<i>Bank One, Indiana</i>	297,598.27	152,148	293,385	285,716
<i>Bank of New York</i>	204,008.20	192,167	212,761	214,737
<i>Baxter Capital Mgmt.</i>	162,825.95	153,263	157,425	150,800
<i>Merchants Capital Mgmt..</i>	0	0	0	17,687
<i>Reams Asset Mgmt.</i>	893,039.00	742,704	459,445	342,431
<i>Siex Investment Advisors</i>	61,167.93	59,439	58,781	54,988
<i>Taplin, Canida, Habacht</i>	101,196.62	101,274	115,564	130,494
<i>Todd Investment Advisor</i>	28,291.50	111,607	118,251	125,677
<i>NBD Bank</i>	0	0	213,727	306,980
Equity Managers				
<i>Barclays</i>	80,108.57	204,502	100,899	0
<i>Rhumblin</i>	54,045.93	23,100	0	0
<i>J.P Morgan</i>	277,035.95	498,191	120,443	0
<i>PIMCO</i>	258,965.00	431,554	22,000	0
<i>Conseco Capital Mgmt.</i>	81,595.00	107,476	0	0
<i>Putnam Investments</i>	320,414.16	164,939	0	0
<i>Franklin Portfolio Assoc.</i>	151,183.34	70,936	0	0
<i>Valenzuela Capital Partners</i>	301,000.03	166,309	0	0
<i>Ariel</i>	759,114.65	379,620	220,843	0
<i>Brandywine</i>	779,087.50	383,645	234,271	0
<i>AELTUS</i>	769,974.00	817,179	218,259	0
<i>TCW</i>	851,048.86	1,160,483	429,752	0
<i>Earnest Partners LLC</i>	38,441.00	0	0	0
<i>GE Asset Management</i>	44,924.00	0	0	0
<i>Institutional Capital Corp</i>	46,500.00	0	0	0
<i>Pacific Financial Research, INC.</i>	53,859.00	0	0	0
<i>Enhanced Investment Technologies, INC</i>	37,667.90	0	0	0
<i>Holt-Smith & Yates Advisors</i>	48,865.00	0	0	0
<i>Forefront Capital Advisors LLC</i>	33,429.61	0	0	0
<i>Dresdner RCM Global Advisors</i>	43,132.10	0	0	0
<i>Alliance</i>	115,954.77	101,434	0	0
<i>Bank of Ireland</i>	694,234.99	601,073	285,356	0
<i>DRESDNER</i>	<u>624,813.10</u>	<u>624,020</u>	<u>332,556</u>	<u>0</u>
<i>Total Management</i>	<u>8,728,471.90</u>	<u>7,632,914</u>	<u>4,086,914</u>	<u>2,023,846</u>
Consultants				
<i>Callan Associates</i>	204,292.47	203,000	193,000	229,000
<i>The Wyatt Co.</i>	0	0	0	0
<i>Total Consultant</i>	<u>204,292.47</u>	<u>203,000</u>	<u>193,000</u>	<u>229,000</u>
Performance Measurement	0	0	0	0
Checking Account Charges	0	<u>22,504</u>	<u>18,112</u>	<u>32,704</u>
Monthly Transaction Tape	0	0	0	0
Other Charges	<u>125,796.15</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Investment Expenses	<u>\$10,123,214.12</u>	<u>\$9,893,748</u>	<u>\$4,485,307</u>	<u>\$2,486,113</u>

**Number of Payees Receiving Benefits
Fiscal Year Ending - June 30**

Gross Benefit Amount	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
0.01 - 100.00	291	304	350	359	367	378	379	374	386	376
100.01 - 200.00	1,047	1,097	1,278	1,320	1,439	1,558	1,674	1,796	1,903	1,918
200.01 - 300.00	1,561	1,617	1,877	1,935	2,055	2,203	2,308	2,430	2,555	2,643
300.01 - 400.00	1,701	1,790	2,011	2,119	2,232	2,400	2,541	2,677	2,854	2,948
400.01 - 500.00	1,793	1,871	2,052	2,127	2,262	2,424	2,549	2,682	2,804	2,870
500.01 - 600.00	1,859	1,895	2,083	2,160	2,287	2,384	2,482	2,604	2,723	2,778
600.01 - 700.00	1,908	2,010	2,049	2,114	2,175	2,246	2,291	2,347	2,379	2,439
700.01 - 800.00	1,818	1,856	1,944	1,977	2,051	2,113	2,157	2,148	2,185	2,235
800.01 - 900.00	1,769	1,826	1,838	1,862	1,930	1,971	1,986	1,978	1,979	1,979
900.01 - 1,000.00	1,866	1,878	1,870	1,873	1,845	1,841	1,769	1,755	1,678	1,656
1,000.01 - 1,100.00	1,942	1,953	1,840	1,801	1,731	1,644	1,575	1,462	1,386	1,329
1,100.01 - 1,200.00	1,928	1,904	1,776	1,684	1,524	1,418	1,303	1,153	1,036	970
1,200.01 - 1,300.00	1,885	1,764	1,570	1,480	1,378	1,284	1,157	1,040	956	870
1,300.01 - 1,400.00	1,794	1,694	1,503	1,393	1,254	1,134	1,005	852	718	627
1,400.01 - 1,500.00	1,638	1,500	1,310	1,185	1,076	963	821	671	570	505
1,500.01 - 1,600.00	1,527	1,387	1,167	1,043	885	779	658	557	451	370
1,600.01 - 1,700.00	1,264	1,159	991	879	742	638	525	461	388	318
1,700.01 - 1,800.00	1,090	977	859	770	698	595	507	427	330	258
1,800.01 - 1,900.00	986	915	787	709	615	525	439	349	258	192
1,900.01 - 2,000.00	851	736	639	579	503	396	324	241	194	140
2,000.01 - 2,100.00	715	617	519	458	403	345	296	224	163	125
2,100.01 - 2,200.00	582	521	453	381	333	265	187	138	91	63
2,200.01 - 2,300.00	469	414	326	294	225	157	116	91	69	50
2,300.01 - 2,400.00	386	310	247	208	181	144	97	65	48	33
2,400.01 - 2,500.00	271	232	198	172	136	92	69	55	36	26
2,500.01 - 2,600.00	220	169	133	120	81	61	44	31	19	17
2,600.01 - 2,700.00	156	127	104	93	62	50	34	32	15	9
2,700.01 - 2,800.00	127	96	72	62	62	28	16	10	8	4
2,800.01 - 2,900.00	90	72	52	41	38	25	25	15	9	5
2,900.01 - 3,000.00	64	52	48	40	30	18	12	6	1	1
3,000.01 - 3,100.00	40	30	25	24	19	17	6	0	1	1
3,100.01 - 3,200.00	32	31	22	22	10	4	4	3	2	1
3,200.01 - 3,300.00	27	19	11	9	8	5	4	3	1	1
3,300.01 - 3,400.00	24	10	13	9	7	7	4	4	2	0
3,400.01 - 3,500.00	13	14	8	7	6	8	5	1	1	1
3,500.01 - 3,600.00	15	11	15	15	7	3	0	1	0	0
3,600.01 - 3,700.00	12	5	2	1	2	1	1	0	0	0
3,700.01 - 3,800.00	3	4	3	1	0	1	1	0	1	1
3,800.01 - 3,900.00	5	3	1	0	1	1	1	1	0	0
3,900.01 - 4,000.00	4	5	2	2	2	2	0	0	0	0
4,000.01 - or more	15	9	7	4	3	2	0	0	0	0
<u>Total</u>	<u>33,788</u>	<u>32,884</u>	<u>32,055</u>	<u>31,332</u>	<u>30,665</u>	<u>30,130</u>	<u>29,372</u>	<u>28,684</u>	<u>28,200</u>	<u>27,759</u>

Number of Approved Benefit Payments

Fiscal Year Ending - June 30

Type of Payment	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Retirement (Including Disability/Survivorship)	1,946	1,801	1,828	1,692	1,593	1,748	1,654	1,464	1,169	1,350
Regular Disability	4	6	3	8	8	3	3	4	6	14
Voluntary Withdrawals	7,007	7,896	1,855	1,357	1,186	1,272	1,384	3,722	1,269	1,481
Death Withdrawals	137	94	115	97	101	138	122	132	116	99

Rate of Investment Earnings Distribution

Fiscal Year Ending - June 30

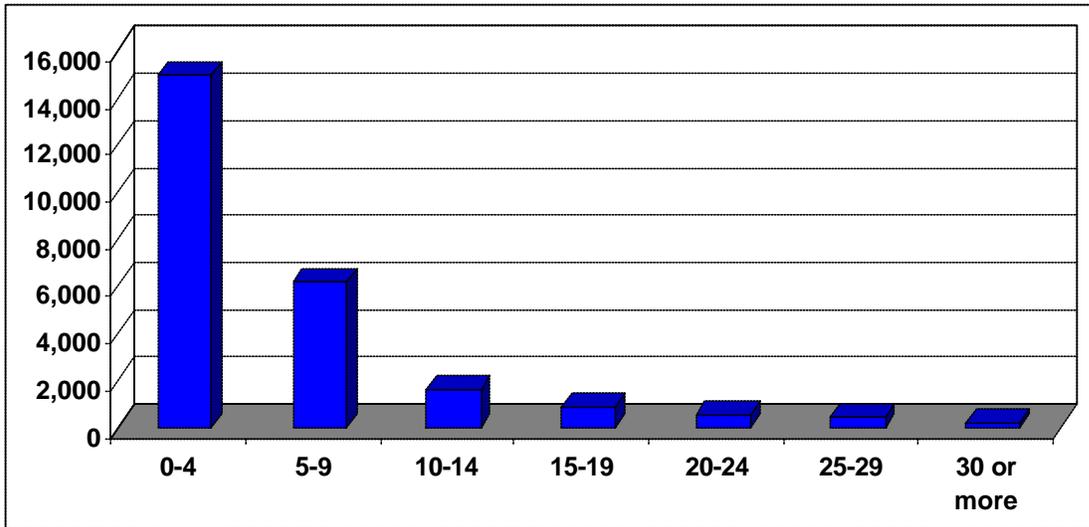
Investment Options	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Guaranteed Fund	7.75%	7.75%	8.00%	8.00%	8.50%	9.00%	9.00%	9.00%	10.00%	10.00%
Bond Fund	11.08%	5.99%	4.49%	10.05%	7.13%	4.30%	11.19%	(0.84)%	12.34%	14.00%
Money-Market*	n/a	n/a	n/a	6.06%	6.03%	5.90%	6.43%	3.35%	4.62%	7.24%
S & P 500 Index	(14.71)%	7.21%	36.37% **							
Small Cap	7.58%	38.65%	34.66% **							
International	(24.13)%	26.27%	29.74% **							

* Money-Market is no longer available as an investment option.

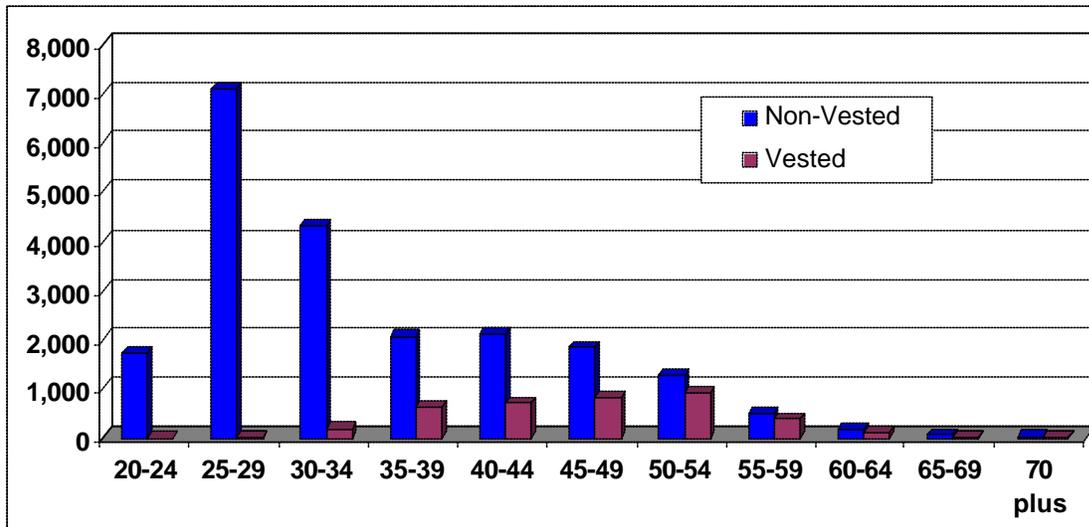
**From inception of 10/01/99 through 06/30/00.

NEW PLAN ACTIVE MEMBERS

By Years of Service: As of June 30, 2001



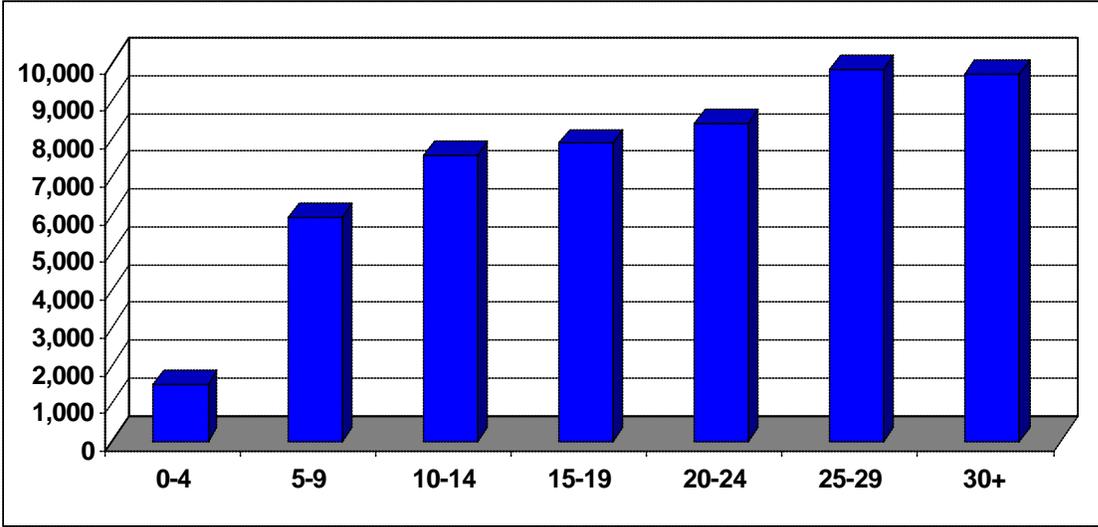
By Age: As of June 30, 2001



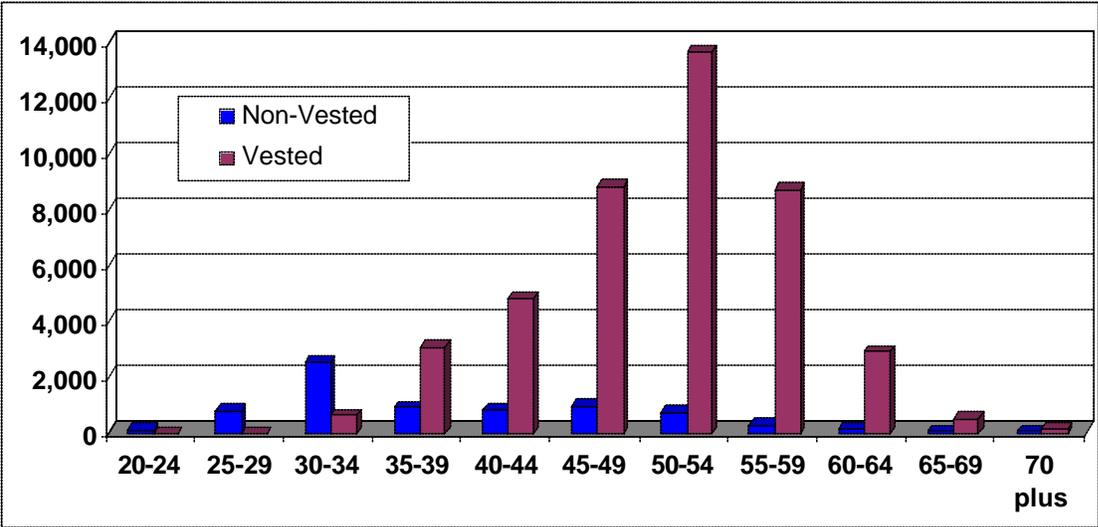
Total Non-Vested:	21,145
Total Vested:	3,701
Total New Plan Members:	24,846

CLOSED PLAN ACTIVE MEMBERS

By Years of Service: As of June 30, 2001



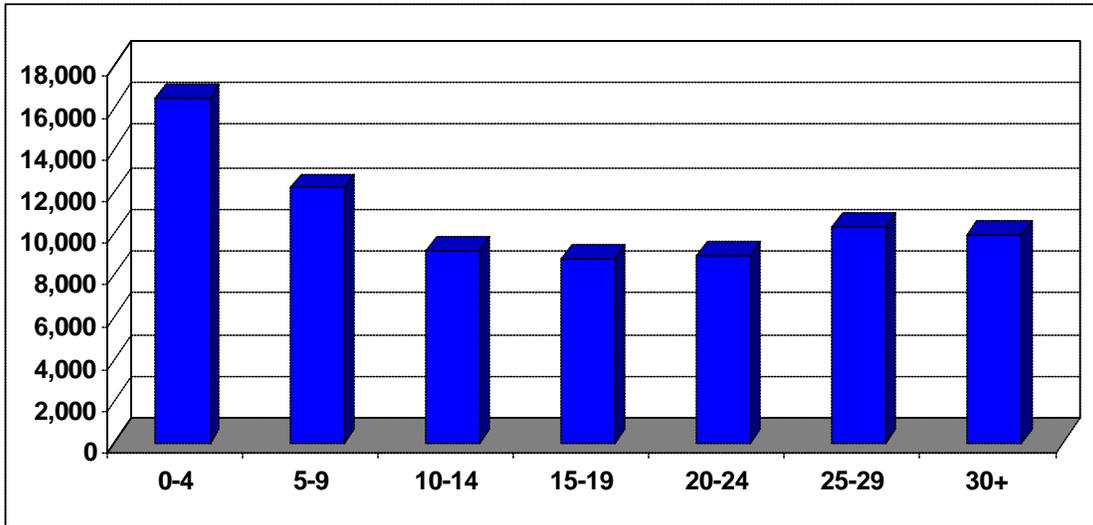
By Age: As of June 30, 2001



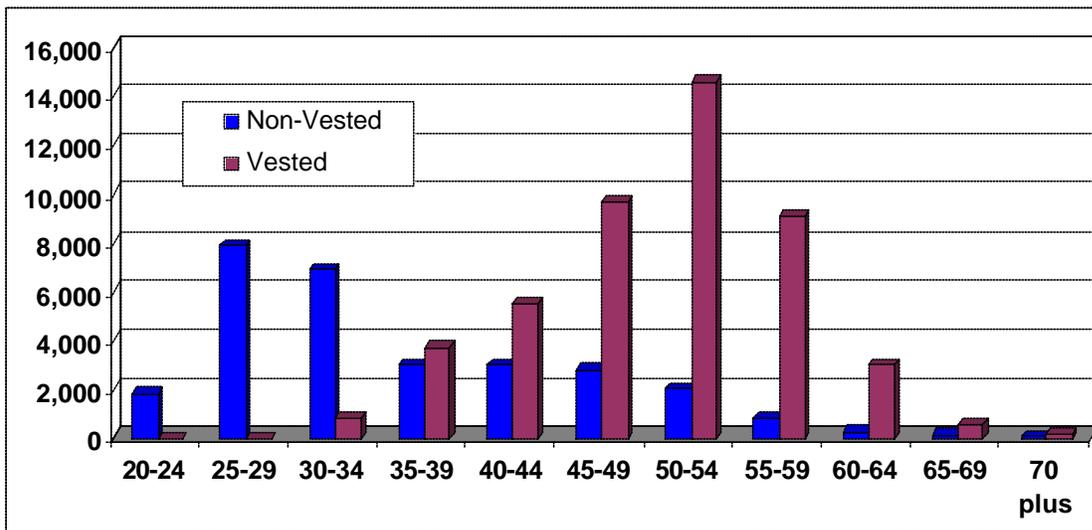
Total Non-Vested: 7,447
 Total Vested: 43,355
 Total Closed Plan Members: 50,802

TOTAL ACTIVE MEMBERS

By Years of Service: As of June 30, 2001



By Age: As of June 30, 2001



Total Non-Vested:	28,592
Total Vested:	47,056
Total Active Members:	75,648

Actuarial Report



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

1000 Town Center • Suite 1000 • Southfield, Michigan 48075 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

April 8, 2002

The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, Indiana

Dear Board Members:

We hereby certify that the actuarial valuation of active and retired members of the Indiana State Teachers' Retirement Fund (ISTRF) as of June 30, 2001 was made in accordance with generally recognized actuarial methods.

It is our opinion that the actuarial information contained in the valuation report is complete and accurate, and was based upon the following:

- (i) Data furnished by the Director of ISTRF concerning active and inactive members, retired members, and beneficiaries as well as relevant financial information. This data was not audited by us but was checked for completeness, reasonableness and year-to-year consistency.
- (ii) Assumptions, adopted by the Board of Trustees after consultation with the actuary, which relate to the experience of the Fund and which produce results we believe are reasonable.

The results of the valuation as shown in our report reflect that employer contributions have been based on amounts needed for cash benefit payments.

A sound financial objective is to contribute amounts which, expressed as percents of active member payroll, will remain level from generation to generation of Indiana citizens, pursuant to IC Sec. 5-10.2-2-11. State legislation enacted in 1993 implements this financial objective for teachers hired after June 30, 1995. The actuarial valuation was made in accordance with the principles of this financial objective.

Respectfully submitted,

Brian F. Dunn, ASA, MAAA, EA

BFD:ct

ACTUARIAL REPORT-ANNUAL REPORT 2001
SUMMARY OF VALUATION RESULTS
JUNE 30, 2001

I. Unfunded Actuarial Accrued Liability

The actuarial accrued liability is the present value of benefits the Fund promises to pay in the future based upon service already rendered – a liability has been established (“accrued”) because the service has been rendered, but the resulting monthly cash benefits may not be payable until years in the future. If the actuarial accrued liability at any time exceeds the Fund’s accrued assets (cash and investments), the difference is called the unfunded actuarial accrued liability.

Actuarial Accrued Liability: Computed and Unfunded

<u>Amounts as of June 30, 2001</u>	<u>Closed Plan</u>	<u>New Plan</u>	<u>Total</u>
Computed actuarial accrued liability	\$12,695,787,691	\$828,038,282	\$13,523,825,973
Allocated assets	5,363,497,813	447,261,751	5,810,759,564
Unfunded Actuarial Accrued Liability	\$ 7,332,289,878	\$380,776,531	\$ 7,713,066,409

ACTUARIAL REPORT-ANNUAL REPORT 2001
SUMMARY OF VALUATION RESULTS
(CONTINUED)
JUNE 30, 2001

II. Computed Employer Contribution Rates – June 30, 2001

Contributions for	Employer Contributions As %'s of Active Payroll	
	Closed Plan 38 Year Amortization of UAAL	New Plan 38 Year Amortization of UAAL
Normal Cost:		
Age and Service Pensions	6.95%	7.11%
Disability and Death-in-Service	0.37%	0.35%
Totals	7.32%	7.46%
Unfunded Actuarial Accrued Liability (UAAL):		
Retired Members and Beneficiaries	2.05%	0.00%
Active and Inactive Vested Members	8.48%	1.86%
Totals	10.53%	1.86%
Computed Employer Contribution Rates	17.85%	9.32%

The New Plan UAAL contribution is primarily attributable to members with prior service. Additional liabilities transferred as a result of prior service would likely require additional funding.

ACTUARIAL REPORT-ANNUAL REPORT 2001
SUMMARY OF VALUATION RESULTS (CONTINUED)
JUNE 30, 2001

III. Test of Financial Condition

If the contributions to ISTRF are level in concept and soundly executed, the Fund will *pay all promised benefits when due -- the ultimate indicator of financial soundness.*

One short-term means of checking a fund's progress under its funding program is shown below. In this indicator, the fund's present assets (cash and investments) are compared with:

- 1) active member contributions on deposit;
- 2) liability for future benefits to present retired members; and
- 3) liability for service already rendered by active members.

In a fund that has been following the discipline of level percent-of-payroll financing, the liability for active member contributions on deposit (Liability 1) and the liability for future benefits to present retired members (Liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liability for service already rendered by active members (Liability 3) will be partially covered by the remainder of present assets. The State's past practice of contributing on a "pay-as-you-go" basis has resulted in Liability 2 being less than 100% funded in the Closed Plan.

***Closed Plan
Actuarial Accrued Liability – Percent Funded***

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Lives	(3) Present Members (Employer Financed Portion) (\$ in Millions)		(1)	(2)	(3)
1981	\$ 423	\$ 885	\$ 1,649	\$ 601	100%	20%	0%
1983(a)	544	1,043	1,751	765	100	21	0
1985	713	1,198	2,112	1,073	100	30	0
1987	932	1,406	2,499	1,401	100	33	0
1989#	1,132	1,624	3,449	1,707	100	35	0
1991	1,373	1,853	3,956	2,161	100	43	0
1992(a)	1,521	2,059	4,369	2,376	100	42	0
1993	1,665	2,290	4,553	2,592	100	41	0
1994	1,812	2,483	4,792	2,808	100	40	0
1995	1,930	2,716	5,029	2,984	100	39	0
1996	2,070	2,968	5,245	3,242	100	39	0
1997(a)	2,188	3,234	5,447	3,678	100	46	0
1998	2,374	3,479	5,629	4,130	100	50	0
1999	2,500	3,659	6,014	4,731	100	61	0
2000	2,699	3,890	5,819	5,210	100	65	0
2001	2,669	4,121	5,905	5,363	100	65	0

Legislated plan amendments.

(a) Actuarial assumptions revised

New Plan
Actuarial Accrued Liability – Percent Funded

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Lives	(3) Present Members (Employer Financed Portion) (\$ in Millions)		(1)	(2)	(3)
1996	\$ 14	\$ 0.3	\$ 33	\$ 21	100%	100%	21%
1997(a)	46	0.4	130	72	100	100	20
1998	74	2.6	222	136	100	100	27
1999	126	3.9	369	240	100	100	30
2000	195	9.8	502	368	100	100	33

(a) Actuarial assumptions revised.

The excess of accrued liability over valuation assets reflects the inclusion of new hires with prior service credit.

Actuarial Report – Annual Report 2001
SUMMARY OF VALUATION RESULTS
(CONTINUED)
JUNE 30, 2001

IV. Valuation Data

The June 30, 2001 actuarial valuation was based on the following data:

	Retirants and Beneficiaries		Inactive Members	
	Number	Annual Allowances	Number	Salary at Termination
Closed Plan	33,698	\$453,306,243	4,358	\$148,731,344
New Plan	<u>85</u>	<u>1,186,156</u>	<u>237</u>	<u>9,226,029</u>
Totals	33,783	\$454,492,399	4,595	\$157,957,373

Active Members

	Number	Annual Payroll	Averages*	
			Age	Service
Closed Plan	50,802	\$2,564,451,154	48.7 years	20.7 years
New Plan	<u>24,846</u>	<u>754,425,873</u>	36.3 years	5.5 years
Totals	75,648	\$3,318,877,027		

* Averages are not used in the valuation process but are shown for general interest.

Financial Information

Reserve Allocation	Closed Plan	New Plan	Totals
Member Reserves:			
Active and Inactive	\$ 2,668,945,655	\$ 210,932,183	\$ 2,879,877,838
Retired	<u>618,238,221</u>	<u>1,138,375</u>	<u>619,376,596</u>
Total Member Reserves	\$ 3,287,183,876	\$ 212,070,558	\$ 3,499,254,434
Employer Reserves:			
Active	\$ -	\$ 223,259,318	\$ 223,259,318
Retired			
Pension Stabilization Fund	\$ 1,833,040,979	-	\$ 1,833,040,979
Other	<u>243,272,958</u>	<u>11,931,875</u>	<u>255,204,833</u>
Total	\$ 2,076,313,937	\$ 11,931,875	\$ 2,088,245,812
Total Employer Reserves	2,076,313,937	235,191,193	2,311,505,130
Total Reserves	\$5,363,497,813	\$447,261,751	\$5,810,759,564

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date:	June 30, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Pay Closed
Amortization period	38 Years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5.5%-10.6%
*Includes inflation at	5.50%
Cost-of-living adjustments	Unscheduled, periodic increases

Membership of the plan consisted of the following at June 30, 2001, the date of the latest actuarial valuation:

	Closed Plan	New Plan	Totals
Retired members and beneficiaries receiving benefits	33,698	85	33,783
Terminated plan members entitled to but not yet receiving benefits	4,358	237	4,595
Active plan members	50,802	24,846	75,648
Totals	88,858	25,168	114,026

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

Closed Plan

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Schedule of Funding Progress			Covered Payroll (c)	UAAL as a % of Covered Payroll (b - a) / c
		Actuarial Accrued Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		
1992*	\$2,376,039,915	\$ 7,949,159,660	\$5,573,119,745	29.9 %	\$2,416,262,885	230.7 %
1993	2,592,320,494	8,508,035,949	5,915,715,455	30.5	2,536,164,646	233.3
1994	2,808,649,929	9,087,583,424	6,278,933,495	30.9	2,614,914,517	240.1
1995	2,983,579,054	9,674,536,606	6,690,957,552	30.8	2,728,810,964	245.2
1996	3,242,032,156	10,283,174,065	7,041,141,909	31.5	2,805,823,234	250.9
1997*	3,678,102,810	10,868,423,166	7,190,320,356	33.8	2,739,435,972	262.5
1998	4,130,388,693	11,481,766,668	7,351,377,975	36.0	2,699,182,719	272.4
1999	4,730,666,420	12,172,501,450	7,441,835,030	38.9	2,755,489,026	270.1
2000	5,209,889,286	12,409,275,218	7,199,385,932	42.0	2,561,532,743	281.1
2001	5,363,497,813	12,695,787,691	7,332,289,878	42.2	2,564,451,154	285.9

* Revised benefits and/or actuarial assumptions and/or methods.

Schedule of Employer Contributions

Fiscal Year	Valuation Date June 30	Contribution Rates as Percents of Valuation Payroll	Annual Required Contribution	Percentage Contributed
1992-1993	1992	16.32%	\$416,022,498	59.0%
1993-1994	1993	16.31	436,399,180	61.0
1994-1995	1994	16.56	456,846,570	63.0
1995-1996	1995	16.74	481,927,124	65.0
1996-1997	1996	16.96	502,040,298	N/A
1997-1998	1997	16.77	484,670,600	N/A
1998-1999	1998	17.10	486,946,058	N/A
1999-2000	1999	17.02	494,778,365	N/A
2000-2001	2000	17.55	474,274,191	N/A
2001-2002	2001	17.85	496,033,881	N/A

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

New Plan

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Schedule of Funding Progress			Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
		Actuarial Accrued Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		
1996	\$ 20,587,223	\$ 47,614,251	\$ 27,027,028	43.2%	\$ 72,506,252	37.3%
1997	72,035,629	176,236,990	104,201,361	40.9	245,167,941	42.5
1998	135,923,370	298,407,427	162,484,057	45.5	395,757,887	41.1
1999	240,053,914	498,422,993	258,369,079	48.2	538,837,104	48.0
2000	368,157,499	705,790,225	337,632,726	52.2	631,071,749	53.5
2001	447,261,751	828,038,282	380,776,531	54.0	754,425,873	50.5

Schedule of Employer Contributions

Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Annual Required Contribution	Percentage Contributed
1996	9.02%	\$ 6,899,767	N/A
1997	9.12	23,589,079	N/A
1998	9.07	37,869,479	N/A
1999	9.28	52,754,308	N/A
2000	9.54	63,515,478	N/A
2001	9.32	76,192,316	N/A

Investments

Indiana State Teachers' Retirement Fund
Investment Managers
Fiscal Year Ending 6/30/2001

	Cost Value	Market Value	%
Custodial			
National City Bank	103,612,886	103,617,206	1.80%
Total Custodial	103,612,886	103,617,206	1.80%
Management			
Fixed Income Managers			
Alliance Capital Mgmt.	749,610,464	781,428,414	13.56%
Bank One, Indiana	581,734,253	589,816,073	10.24%
Bank of New York	586,662,917	590,166,451	10.24%
Baxter Capital Mgmt.	458,423,772	464,951,491	8.07%
Reams Asset Mgmt.	779,626,122	786,849,558	13.66%
Seix Investment Advisors	31,305,644	31,571,814	0.55%
Taplin, Canida & Habacht	65,333,174	62,768,503	1.09%
Equity Managers			
Large Cap			
<i>Passive</i> Barclays	796,797,148	816,595,196	14.17%
Rhumblin	137,177,514	120,638,878	2.09%
<i>Enhanced</i> J.P. Morgan	81,801,820	84,660,614	1.47%
PIMCO	78,315,880	79,717,059	1.38%
<i>Value</i> Earnest	20,066,284	21,436,572	0.37%
GE Capital	30,179,797	31,995,077	0.56%
ICAP	25,396,663	26,519,413	0.46%
Pacific Financial	25,694,111	27,206,878	0.47%
<i>Growth</i> DresdnerRCM	25,116,193	26,521,143	0.46%
ForeFront	24,998,524	25,106,597	0.44%
Holt-Smith & Yates	25,057,149	26,852,553	0.47%
INTECH	25,088,969	26,201,505	0.45%
Mid Cap			
<i>Growth</i> Putnam Investments	51,160,565	53,146,203	0.92%
<i>Core</i> Franklin Portfolio Assoc.	50,686,333	55,328,723	0.96%
<i>Value</i> Valenzuela Capital Partners	51,165,162	56,878,834	0.99%
Small Cap			
<i>Value</i> Ariel	148,061,718	170,470,671	2.96%
<i>Value</i> Brandywine	143,177,658	177,963,316	3.09%
<i>Growth</i> Aeltus	90,196,233	97,403,452	1.69%
<i>Growth</i> TCW	67,775,642	86,996,496	1.51%
International			
<i>Passive</i> Alliance	131,820,846	115,454,038	2.00%
Bank of Ireland	134,559,976	120,009,856	2.08%
DresdnerRCM	110,029,112	102,924,985	1.79%
Total Management	5,630,632,527	5,761,197,570	100.00%

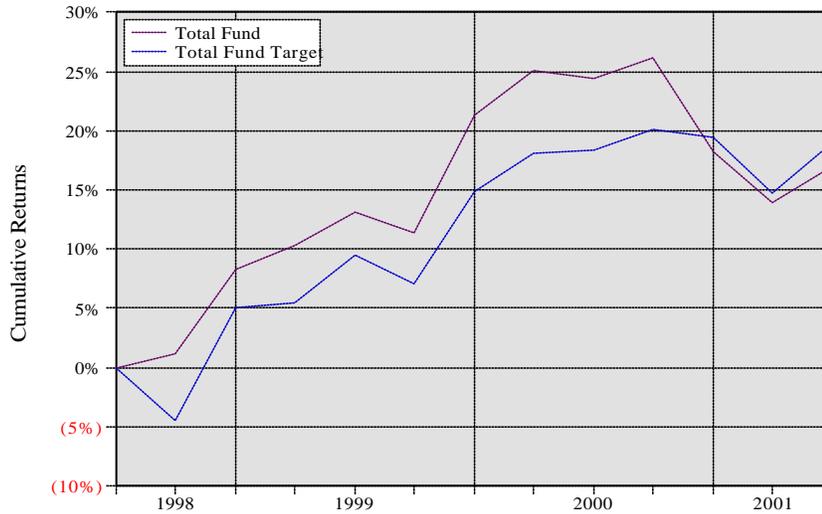
Detailed holdings of each individual investment manager are available upon request.



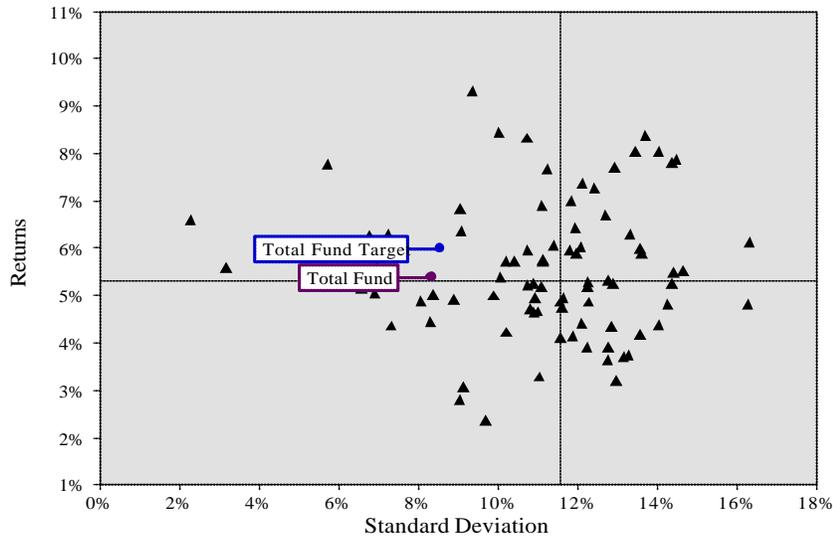
Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the plans in the Public Plan Sponsor Database.

Cumulative Returns Actual vs Target



Three Year Annualized Risk vs Return



Triangles represent membership of the Public Plan Sponsor Database

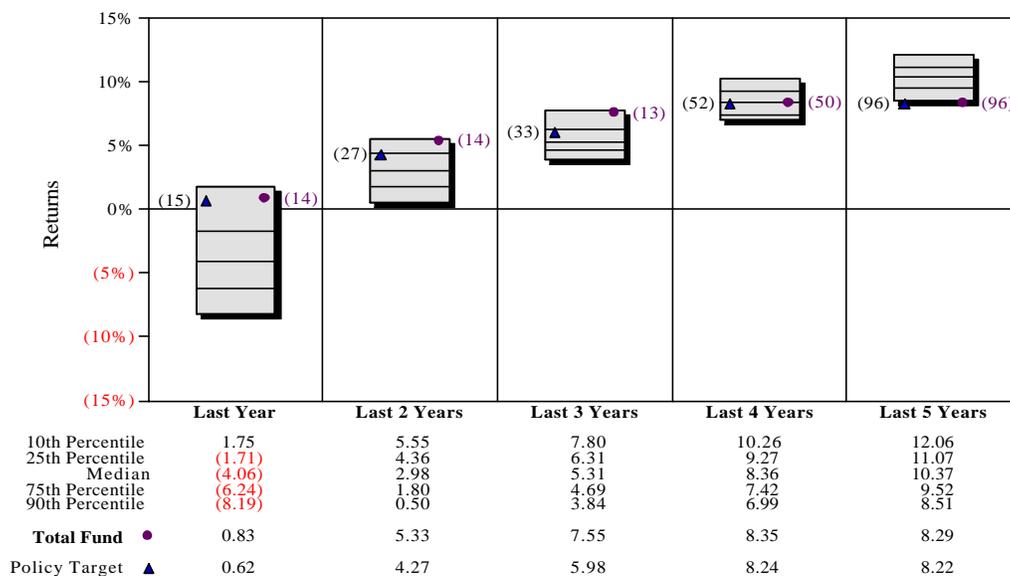
* Current Quarter Target = 48.0% L/B Agg, 26.0% S&P 500, 10.0% MSCI EAFE Index, 6.0% Wilshire Real Estate Idx, 5.0% Russell 2000 and 5.0% S&P Mid Cap 400.



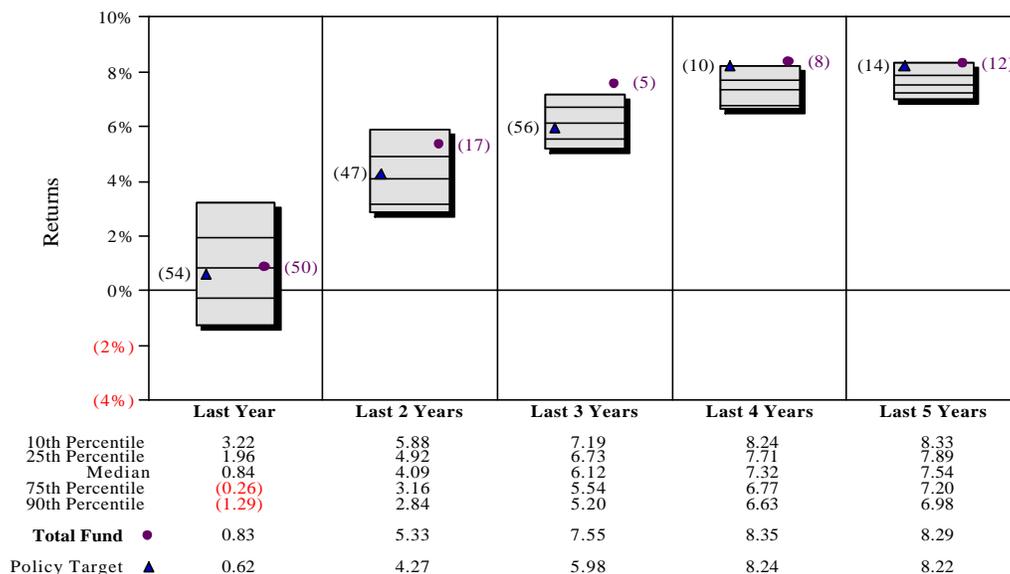
Total Fund Ranking

The first two charts show the ranking of the Total Fund's performance relative to that of the Public Plan Sponsor Database for periods ended June 30, 2001. The first chart is a standard unadjusted ranking. In the second chart each fund in the database is adjusted to have the same historical asset allocation as that of the Total Fund.

Public Plan Sponsor Database



Asset Allocation Adjusted Ranking



* Current Quarter Target = 48.0% L/B Agg, 26.0% S&P 500, 10.0% MSCI EAFE Index, 6.0% Wilshire Real Estate Idx, 5.0% Russell 2000 and 5.0% S&P Mid Cap 400.

TOTAL EQUITY PERIOD ENDED JUNE 30, 2001



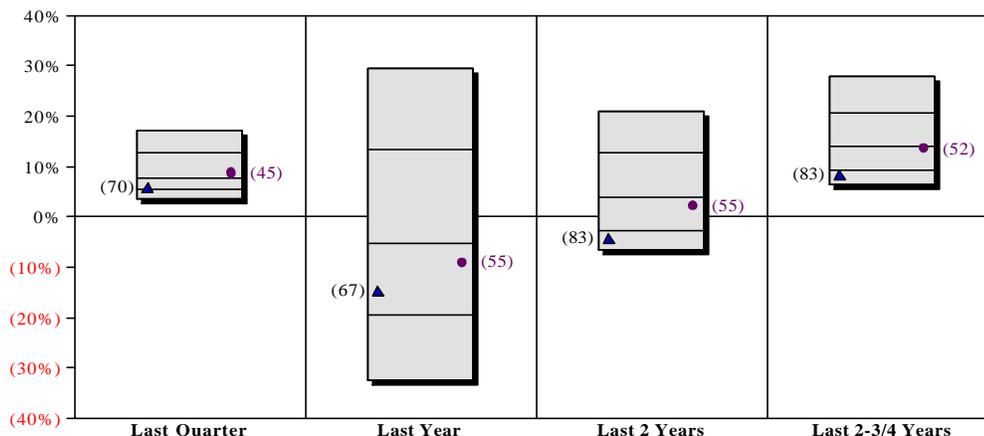
Investment Philosophy

The Total Equity Database is a broad collection of actively managed separate account domestic equity products. Equity funds concentrate their investments in common stocks and convertible securities. Funds included maintain well-diversified portfolios.

Quarterly Summary and Highlights

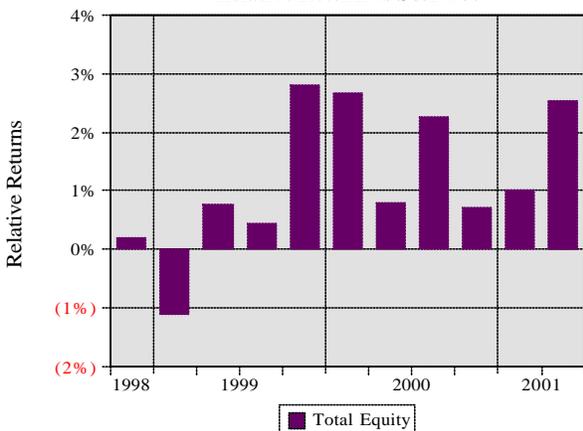
- Total Equity's portfolio posted a 8.54% return for the quarter placing it in the 45 percentile of the Total Domestic Equity Database group for the quarter and in the 55 percentile for the last year.
- Total Equity's portfolio outperformed the S&P 500 by 2.69% for the quarter and outperformed the S&P 500 for the year by 5.66%.

Performance vs Total Domestic Equity Database

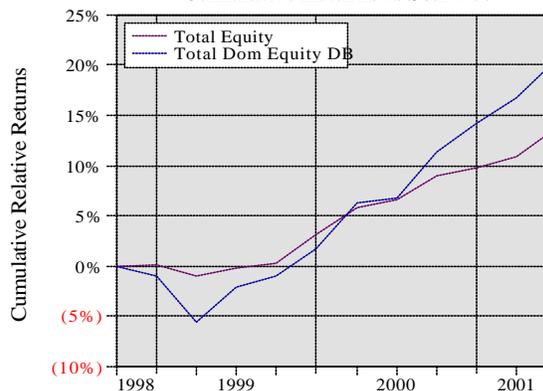


10th Percentile	17.24	29.33	20.80	27.99
25th Percentile	12.83	13.38	12.84	20.52
Median	7.72	(5.28)	3.81	13.94
75th Percentile	5.43	(19.34)	(2.72)	9.24
90th Percentile	3.54	(32.37)	(6.60)	6.48
Total Equity ●	8.54	(9.17)	2.02	13.49
S&P 500 ▲	5.85	(14.83)	(4.43)	8.30

Relative Return vs S&P 500



Cumulative Returns vs S&P 500



TOTAL FIXED-INCOME PERIOD ENDED JUNE 30, 2001



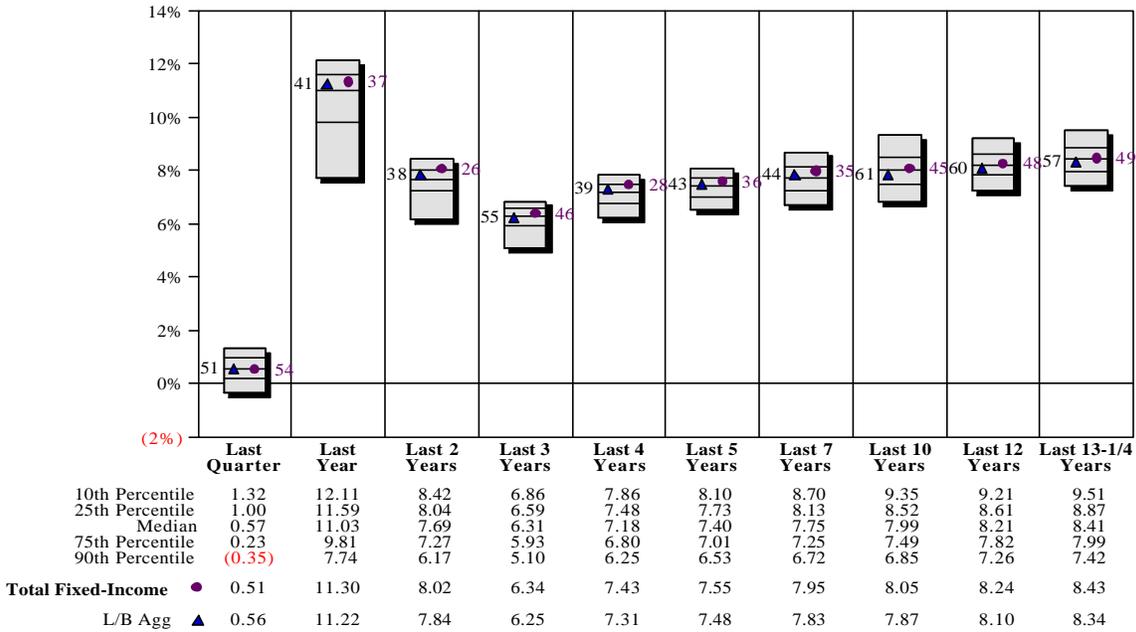
Investment Philosophy

The Total Fixed-Income Database is a broad collection of separate account domestic fixed-income products. Fixed-Income funds concentrate their investments in bonds, preferred stocks, and money market securities.

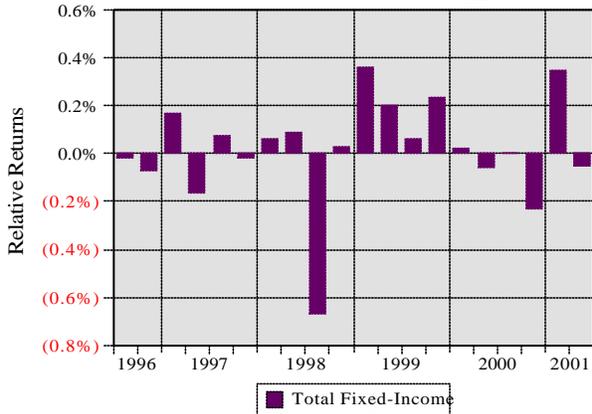
Quarterly Summary and Highlights

- Total Fixed-Income's portfolio posted a 0.51% return for the quarter placing it in the 54 percentile of the Total Domestic Fixed-Inc Database group for the quarter and in the 37 percentile for the last year.
- Total Fixed-Income's portfolio underperformed the L/B Agg by 0.05% for the quarter and outperformed the L/B Agg for the year by 0.08%.

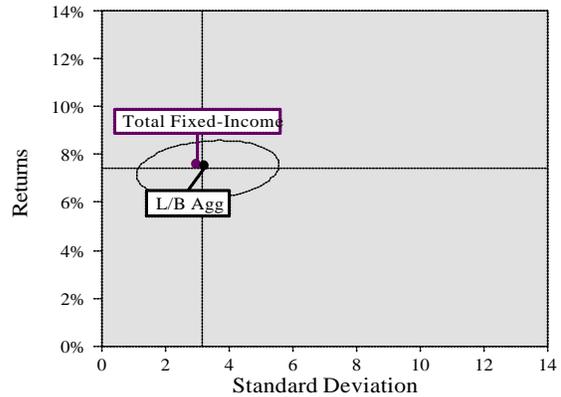
Performance vs Total Domestic Fixed-Inc Database



Relative Return vs L/B Agg



Total Domestic Fixed-Inc Database Annualized Five Year Risk vs Return





Investment Manager Returns

The table below details the rates of return for the plan's investment managers over various time periods ended June 30, 2001. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2001

	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
Domestic Equity	8.54%	(9.17%)	2.02%	-	-
Large Cap Equity	5.90%	(14.89%)	(4.70%)	-	-
Passive	5.83%	-	-	-	-
Barclays Global Investors	5.83%	(14.81%)	(4.44%)	3.89%	9.92%
Rhumblin	5.81%	(14.15%)	(6.64%)	2.46%	8.80%
Enhanced	6.47%	-	-	-	-
J.P. Morgan	6.72%	(16.11%)	(6.62%)	3.08%	9.59%
PIMCO	6.20%	(13.39%)	(3.51%)	4.72%	10.69%
Standard & Poor's 500	5.85%	(14.83%)	(4.43%)	3.89%	9.91%
Growth	7.61%	-	-	-	-
Dresdner	6.20%	-	-	-	-
INTECH	6.40%	-	-	-	-
H-S&Y	10.29%	-	-	-	-
Russell 1000 Growth	8.42%	(36.18%)	(10.44%)	0.69%	7.62%
S&P 500 Growth	7.71%	(32.43%)	(10.50%)	0.89%	8.48%
Value	4.44%	-	-	-	-
Earnest	6.24%	-	-	-	-
GEAM	3.29%	-	-	-	-
ICAP	4.19%	-	-	-	-
PFR	4.65%	-	-	-	-
Russell 1000 Value	4.88%	10.33%	0.24%	5.35%	10.79%
S&P 500 Value	4.41%	7.92%	1.19%	6.07%	10.55%
Mid Cap Equity	10.77%	3.56%	15.72%	-	-
Franklin Portfolio Assoc.	13.45%	7.88%	13.90%	14.82%	18.43%
Putnam Investments	16.29%	(6.60%)	15.82%	16.91%	19.93%
Valenzuela Capital	3.76%	8.10%	4.91%	1.21%	6.64%
S&P 400 Mid Cap	13.16%	8.87%	12.85%	14.28%	17.37%
Small Cap Equity	14.73%	3.12%	19.95%	-	-
Growth	22.69%	(31.17%)	-	-	-
Aeltus Capital Management	14.04%	(17.86%)	8.85%	4.17%	9.06%
TCW Group	34.06%	(41.84%)	1.75%	8.58%	13.60%
Russell 2000 Growth	17.97%	(23.34%)	(0.79%)	2.15%	4.81%
Value	10.92%	39.39%	-	-	-
Ariel Capital Management	6.64%	28.98%	12.97%	9.94%	15.31%
Brandywine Asset Management	15.36%	50.77%	10.37%	-	-
Russell 2000 Value	11.64%	30.81%	13.83%	6.90%	10.01%
International Equity	(0.42%)	(24.42%)	(2.47%)	-	-
Alliance Capital Management	(0.77%)	(23.98%)	(5.60%)	-	-
Bank of Ireland	0.36%	(19.51%)	(0.05%)	-	-
Dresdner RCM	(0.94%)	(29.92%)	(3.26%)	-	-
MSCI EAFE Index	(1.32%)	(23.83%)	(5.54%)	(1.34%)	0.47%